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Commentary

Three years after the onset of the economic crisis, a new Asia is emerging. Spurred by dissatisfaction with the perceived failure of global institutions to mitigate the economic downturn, and by positive geopolitical developments, such as the thawing of relations between North and South Korea, Asian countries are starting to explore new forms of economic cooperation. Japan's influential former Vice Minister of Finance, Eisuke Sakakibara, for example, has supported the creation of an Asian Monetary Fund to help stabilize the region's economies. Concurrent with this new form of Asian-only regionalism is the emergence of bilateralism as the key mode of Asia Pacific economic diplomacy. Singapore has taken the lead, having concluded a trade agreement with New Zealand, and is exploring similar deals with six other countries, including Canada.

Canada's interests are not served by Asia-only regionalism, which may limit our ability to play a role in the future of this dynamic region. Moreover, the new bilateralism is incomplete because it will provide only partial access to the Asia Pacific, and leaves out less developed countries. With a US president coming to office who is more likely to be engaged with Latin America than Canada, we risk neglect in both the Americas and Asia Pacific. Our strategy should be firstly to reform global institutions to take account of the increasing influence of Asia Pacific counties, and to maintain our leadership in the G-20. In addition, Ottawa should focus on the Asia Pacific Economic Cooperation forum (APEC) as a policy vehicle, because it is the only government-level institutional bridge between the Americas and Asia Pacific, and includes both developed and developing countries. Canada should seek to make APEC a "Pacific Organization for Economic Cooperation and Development," a multilateral body cutting across divisions and helping to secure our place in an inclusive Asia Pacific partnership.

Asian Regionalism, Asia-Pacific Bilateralism, and Canada

Speaking at the Asia Pacific Foundation of Canada's "Asia Pacific Summit" in Vancouver in October, Dr. Eisuke Sakakibara observed that it would be wrong to try to impose the American economic model on Asia because of the different initial conditions and historical evolution of the two regions. As an economist with an American Ph.D., Sakakibara was not speaking out of spite for the Western currency speculators and free-market crusaders whom Malaysian Prime Minister Dr. Mahathir Mohamed has attacked in a superficially similar vein. Rather, the former "Mr. Yen" was speaking from an insightful understanding of both the world economy and Asia's place in it. In particular, Sakakibara pointed to the difference between the 1980s, in which Japan was the clear Asian leader, and the emergence of a multi-centred Asia in the new economy, with what he claimed is far greater complementarity among China

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Bilateral Economic Arrangements in Asia Pacific

Partners		Type of Agreement	Status
Australia	New Zealand	Closer Economic Relations	Implemented
Singapore	New Zealand	Closer Economic Partnership	Signed
Mexico	South Korea	Investment guarantee pact	Signed
Mexico	Singapore	Free trade	Negotiations ongoing
Chile	South Korea	Free trade	Negotiations ongoing
Chile	New Zealand	Free trade	Negotiations ongoing
Japan	South Korea	Investment agreement	Negotiations ongoing
Japan	Singapore	Free trade	Negotiations ongoing
Singapore	United States	Free trade	Negotiations pending
Australia	Singapore	Free trade	Negotiations pending
Singapore	South Korea	Free trade	Official discussions
Canada	Singapore	Free trade	Official discussions
New Zealand	South Korea	Free trade	Official discussions and study
Japan	South Korea	Free trade	Official discussions and study
Hong Kong	New Zealand	Free trade	Official discussions
India	Singapore	Free trade	Offical discussions and study
Canada	Japan	Free trade	Informal discussions and study
Japan	United States	Free trade	Informal discussions

Sources: Various media reports

Japan, India and ASEAN. Based on this new international division of labour and increasing intra-regional trade, the former top bureaucrat argued that bilateral trade agreements between Japan and Singapore and Japan and South Korea should be strongly endorsed, and extended to other countries in Asia. (Note that he did not mention the exploratory talks on free trade between Canada and Japan.) Sakakibara also favoured a regional trade round similar to the GATT Kennedy and Uruguay processes.

Is the idea of an Asia Pacific community dead?

Sakakibara's presentation elicited a debate among the Summit's delegates. Professor Paul Evans, of the University of British Columbia, wondered if the idea of an Asia Pacific community might be dead. Sakakibara noted that American membership in APEC dilutes the organization, because Washington's international dominance instantly makes APEC a global, rather than regional, body. However, Joseph Caron, Assistant Deputy Minister for Asia and Africa at the Department of Foreign Affairs and International Trade, questioned the viability of an Asia Pacific framework from which the US was excluded.

The idea of closer Asian economic ties is not new . . .

Sakakibara's arguments are only one version of a long-standing idea that Asians should cooperate more with each other. The most enduring expression of this was the formation of the Association of South East Asian Nations (ASEAN), in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand, in response to the Vietnam War and the threat of communism. The organization has since gained five additional members — Brunei, Vietnam, Laos, Myanmar, and Cambodia – and transformed itself into a largely economic grouping. In the 1990s, the most prominent exponent of Asian-focused regionalism was Malaysia's Dr. Mahathir Mohamed, who proposed an East Asian Economic Grouping,

renamed the East Asian Economic Caucus (EAEC), as an alternative to APEC. EAEC would exclude Canada, the US, Australia and New Zealand. The plan was stymied by APEC after American pressure and Japanese reluctance to participate.

. . . but the Asian crisis has given the plan new life

Fallout from the economic crisis of 1997-1999 has added impetus to the regional cooperation trend. Under the Manila Framework, set up in November 1997, senior finance officials meet annually to exchange "early warning signals" to avoid another Asian financial crisis and the associated contagion effects. Finance ministers took another step in this direction with the Chiang Mai initiative in May to fend off speculative attacks through a series of currency swaps. An ASEAN + 3 dialogue has started, linking the Southeast Asian countries with China, Japan and South Korea. Similar to Asian-focused regionalism, bilateral economic agreements have a long history in Asia Pacific, although their popularity has increased since the economic crisis and the failure of the WTO meeting in Seattle. In 1966, Australia and New Zealand entered into a free trade agreement, which was upgraded to the Closer Economic Relations (CER) in 1983, covering issues such as product standards, the recognition of professional credentials, and quarantines. Singapore is leading the new bilateral thrust in Asia Pacific economic diplomacy. It signed a pact with New Zealand in November after a year of negotiations, and has agreed to explore a free trade deal with Canada. Even more significant are negotiations Japan agreed to begin with Singapore in January 2001 aimed at hammering out a bilateral trade pact. The Singapore-New Zealand free trade agreement (FTA) is seen as a prelude to forming a Pacific-5, also known as P-5, which would include the US, Australia, and Chile. New Zealand is also aiming to use the accord with Singapore to pry some concessions from Australia in their CER, such as reducing rules of origin from 50% to 40% content. Both Australia and New Zealand have been actively exploring a possible linkage between CER and the ASEAN Free Trade Area (AFTA). The accompanying table gives details of 18 bilateral trade or investment arrangements that have been adopted, negotiated, or are being considered. Ironically, APEC summits, despite their avowed commitment to "open regionalism," have been key events at which member economies discuss bilateral pacts on the margins of the main meetings.

Implications for Canada

The best solution to regional concerns is institutional reform

In responding to Asia-only regionalism and the new Asia Pacific bilateralism, Canada should note that Sakakibara's first preference for achieving greater recognition of Asia's economic role was for reform of global institutions. Asia-only regional cooperation was his second-best solution. He has a point. The Bretton Woods institutions were designed for a very different political and economic world. Reform of these institutions should be a top priority. Canada's particular role should be continued leadership of the G-20, which Finance Minister Paul Martin currently chairs. The forum's mandate is to promote global financial stability, a critical concern in Asia after the crisis, and it gives Canada a voice on some of the key challenges facing the global economy. The G-20 includes both developed and developing nations, and six other Asia Pacific countries — Australia, China, India, Indonesia, Japan and South Korea.

Asia-only regionalism suggests greater unity than exists

There are two major perspectives on how Canada should view Asia-only regionalism. The first is that it could be welcomed as a healthy development, designed to build trust and dialogue after years of insecurity and suspicion. From this perspective, Canada will benefit indirectly from the greater stability that such a framework – perhaps even as ambitious as a "Concert of Asia" – would engender. However, considering the likely divisions in any Asia-only framework, it might also provide a false sense of stability both within and beyond the region. In the well-established ASEAN, there is a division among members like Myanmar

and Vietnam, which support the group's founding principle of non-intervention and mutual respect for sovereignty, and Thailand and the Philippines, which support a "flexible engagement" approach to addressing other members' internal issues. On the economic side, AFTA has now backed away from its free trade deadlines and accepted "flexibility" by permitting an "opt out" provision, insisted upon by Prime Minister Mahathir, for tariff reductions on cars and car parts. The complementarity in Asian economies may not be as great as Sakakibara suggests – not only in trade, but also in investment as China's integration into the WTO drains away foreign direct investment from Southeast Asia. A new Asian economic framework may actually become more like ASEAN's own spin-off, the ASEAN Regional Forum: a rather loose regional group dealing with broad issues, rather than a coordinated decision-making institution.

Current talks largely exclude Canada and developing states

From the Canadian perspective, the current trend toward building a patchwork of bilateral free trade agreements, with the hope of eventually cobbling them together to form multilateral deals, is not unwelcome, but incomplete. While Canada is exploring trade arrangements with Singapore and Japan, Mexico – which can offer similar access to the North American market as Canada — appears to have a slight edge in engaging Asia. Canada's exclusion from the P-5 is also notable. The present bilateral process also sidelines the developing countries, for which market access is a major issue. Only one of Singapore's Asian trade interlocutors, India, is a developing country. One of the problems leading to deadlock in the WTO is that developing countries feel left out. Bilateral deals risk doing the same thing. Segmentation of the global economy into FTA-haves and FTA have-nots will lead to growing disparity and an even greater backlash against globalization.

The Role of APEC

APEC remains a vital bridge into Asia for Canada

An alternate route to Asian economic integration is through APEC. In the face of Asia-only regionalism and Asia Pacific bilateralism, APEC has a vital role to play in Canada's foreign policy. The group acts as a bridge between Asia and the Americas, which may both turn inwards, to our disadvantage. Like the G-20, APEC incorporates both developing and developed nations. APEC is also a necessary multilateral complement to Asia Pacific bilateralism and gives Canada profile in a region where our credentials as a member of the community are quite tenuous. However, it is also clear that APEC's present status is inadequate. The organization is in stasis. More than 10 years after it was founded, APEC is still in search for a noun to attach to the acronym. The noun most frequently used is "forum" because the annual Leaders' Meeting represents APEC's centrepiece. As valuable as these opportunities for high-level exchange can be, they pass quickly, and do not appear to be leading to enduring region-building.

APEC could take on new life as a "regional OECD"

APEC presently has an ad hoc system of working groups covering customs procedures, product standards, pollution control, and labour mobility, but it is voluntary and self-funded. An alternative strategy would be to create a centre of technical support and analysis at APEC's secretariat, similar to what the Organization for Economic Cooperation and Development (OECD) does among the developed countries. Support for the adaptation of this European model to the Pacific context is rising among thoughtful policymakers and analysts who realize that a knowledge economy must be buttressed by knowledgeable institutions. Some of the most important progress can be made in highly specialized areas, such as trade facilitation and economic and technical cooperation (Ecotech), which require sound research. They are the keys to enhanced economic integration, even if they lack the political appeal of a bilateral trade deal signed under spotlights by national leaders. The failure of the Early Voluntary Sectoral Liberalization (EVSL) initiative has meant the passing

of the trade liberalization baton to the WTO and various bilateral deals. APEC's work in the area of trade facilitation — including customs procedures, standards and conformance, and mobility of business people — is, essentially, economic and technical cooperation. Viewed in this context, Ecotech is critical to the implementation of the trade and investment liberalization and facilitation agenda, translating commitments into reality through training and other forms of technical support. With its focus on sharing of best-practice information and expertise, and pooling resources to address regional bottlenecks and skills gaps, APEC's Ecotech agenda has the potential to make a meaningful contribution to economic growth. Perhaps this is why it has won the support of both the developing nations, including China, which benefit from the expertise, and the developed countries.

Canada can push APEC to a new role in community-building

The time is right to move APEC to the next level, especially with an increasingly outward-looking China in the chair of the group in 2001 and hosting the leaders' summit in Shanghai in November. Moreover, although George W. Bush will mainly be focused on Latin America, APEC was founded under his father's presidency in 1989, and its pro-trade orientation will likely appeal to him. Canada has the potential to act as a broker and innovator in Asia Pacific and, through helping to build a firm knowledgebase of policy expertise in APEC, move the region toward the eventual goal of "community."

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